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FINANCIAL PLANNING

USING SOCIAL SECURITY IN PLANNING FOR THE FUTURE

Social Security
as a financial
planning tool

PURPOSE

To help students understand how Social Security fits in financial planning.

OVERVIEW

This is a good lesson on which to end a course on Social Security or to use in conjunction with Lesson IV on benefits. It tells students how they should use Social Security information to plan for the future. Students discuss what specific information they will need for planning purposes and how to get it.

OBJECTIVES

At the conclusion of this lesson, students will be able to:

Identify the essential information they need to know about Social Security in order to use it effectively in financial planning.

Explain how to get the information they need for planning purposes, including a benefit estimate.

MATERIALS

HANDOUTS (1-6)

FACTSHEET

Using Social Security in
Planning for the Future

KEY TERMS

BUDGET

Allocating income to various categories such as savings and insurance to cover today's expenses, plan for future goals, and minimize risks.

DISABILITY

A risk. Social Security law defines it as a medically documented illness or injury which prevents substantial work for 12 calendar months or is expected to result in death.

DEATH

Social Security pays survivors monthly benefits.

EARNINGS RECORD

The record Social Security keeps of the wages and self-employment earnings on which Social Security tax was paid. It is used to determine insured status and benefit amounts.

GOALS

What we need or want in the future, such as a car, college education, or retirement benefits.

INSURED STATUS

A Social Security term meaning having worked in covered employment long enough to be eligible for retirement, survivors, or disability benefits. Needed before any benefits can be paid.

MEDICARE

Basic health insurance for workers 65 or older, or receiving disability benefits for 24 months or having severe kidney disease.

PENSION

Payments from an employer or insurance company based on work for one employer.

REPLACEMENT RATES

The percentage of earnings the benefits replace. In general, benefits replace about 42 percent of the earnings at the average earnings level, and 26 percent for workers paying on maximum earnings subject to the Social Security tax.

RETIREMENT

Social Security benefits are payable as early as 62 with a reduction. The retirement age for full benefits is gradually increasing from 65 to 67.

RISKS

Events which threaten our ability to work for income, our savings, etc. Such as becoming disabled, large medical expenses.

OPENING THE LESSON

State the objectives of the lesson. Review the key words. Lead the following discussion using the factsheet. Permit students to refer to the factsheet if necessary to respond to questions.

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1. Ask students if they know what financial planning is, or what they think it is. Discuss, then define:

HANDOUT 1

Financial planning is a method people use to meet future financial goals and to minimize financial risks.

List some of our goals and risks on the board.

Ask what people usually do to meet goals? Minimize risks? Discuss.

DEVELOPING THE LESSON

2. Explain that Social Security is this nations' basic method of assuring a continuing income to you and your family if you:

HANDOUT 2

☐ Become disabled

☐ Retire

☐ Die

In financial planning, Social Security retirement, survivors, and disability benefits:

Minimize risk of financial disaster at disability or death.

Help meet the goal of financial security in retirement.

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3. Refer to scene in video in which Kara's older sister, Jenna, discusses her husband's use of Social Security in financial planning. Ask students what they think of this scene. Is it realistic? Do many people use Social Security in planning for their retirement? Should they? Why?

REFER TO VIDEO

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4. Ask: What do you need to know about Social Security to use it effectively in planning financial security? From reading the factsheet, students should be able to pose the following questions.

HANDOUT 3

How much in Social Security benefits can you expect at retirement, or disability, or for your family should you die before retirement?

How can you get an estimate of your benefits?

How will other income or pensions affect your Social Security benefits?

How old do you have to be to get benefits?

How much work under Social Security do you need for benefits?

When and how should you contact Social Security?

HANDOUT 4

Note that we have already discussed how old you have to be and how much work under Social Security you need to get benefits in Lesson IV. Let's review briefly.

FULL RETIREMENT BENEFITS are payable at age 65 (67 by 2027, the time the students will be thinking about retirement).

REDUCED RETIREMENT BENEFITS are payable at age 62; reduction increases from the present 20 percent to 30 percent by 2022.

INCREASED RETIREMENT BENEFITS for people who delay retirement past full retirement age. Increases gradually to eight percent a year by 2009.

Under present law, you will not need more than 10 years of work (40 work credits) to qualify for retirement benefits.

DISABILITY BENEFITS are paid on your work record at any age. The amount of work needed ranges from one and one-half years (six credits) for workers under 24 to at least five years (20 credits) out of the last 10 for workers over 30.

SURVIVORS BENEFITS are paid on your work record at any age. The amount of work needed by the worker increases from one and one-half (six credits) for workers under 24 to no more than 10 (40 credits) for workers over 43.

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5. Discuss first how much you can expect in benefits when you retire, die, or become disabled.

HANDOUT 5

The first thing you should know is that Social Security does not replace all of your earnings, only a part of them. The replacement rate depends on your level of earnings:

Low earnings	60 percent
Average earning	42 percent
High earnings	26 percent

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6. How would you go about finding out how much you've got coming from Social Security?

HANDOUT 6

To make it easier for workers, Social Security provides a *Personal Earnings and Benefit Estimate Statement* (PEBES) upon request.

Statement will show:

Total wages credited to your record annually

Number of work credits earned

Estimated monthly benefits

Estimate of Social Security taxes paid

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7. Remind students that, since they will need other financial resources in addition to Social Security, to look at how their Social Security benefits may be affected.

FACTSHEET

In general, only earnings from work done after you start receiving benefits affect your benefits. Most other types of retirement income will not affect your benefits. These include payments from private insurance and pensions from private employers, and annuity payments; and income from investments, such as interest and capital gains. This rule is designed to encourage people to build up income for retirement and financial security using Social Security as a base.

Note other rules that could possibly affect your benefits, although not very many people are affected:

WORKERS' COMPENSATION and other public disability payments may reduce Social Security disability payments so that total income does not exceed 80 percent of monthly income prior to becoming disabled.

A pension based on work not covered by Social Security will reduce your Social Security retirement payment under the WINDFALL PROVISION.

A benefit received from another public pension system may affect your benefit as a spouse receiving a Social Security benefit on the earnings record of a worker, under the rules of the GOVERNMENT PENSION OFFSET.

FEDERAL INCOME TAX may be due on up to 85 percent of your Social Security benefits if you have high income.

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8. Remind the students that these are only some of the most important things people need to know about Social Security for financial planning. The more you know, the better. You should also know when and how to contact Social Security.

FACTSHEET

You should call Social Security:

To ask a general question.

To get an application for Social Security number.

To get a "Request for Earnings and Benefit Estimate Statement"

If you have more than one Social Security number.

YOU SHOULD CALL SOCIAL SECURITY *(continued)*:

If you notice an error in your earnings record.

If someone in your family:

- ☐ Dies
 - ☐ Becomes disabled
 - ☐ Reaches 62 and wants to retire
 - ☐ Develops permanent kidney failure
 - ☐ Reaches 65 and wants to discuss Medicare
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CALL 1-800-772-1213.

CONCLUDING THE LESSON

9. Now, let's see how much you remember about what we've just discussed. (Give quiz and discuss).

QUIZ

ALTERNATIVE EXERCISE

Have students develop a retirement plan, or a financial plan, using the information they have learned. The plan should identify the level of income they expect in retirement, or if they should become disabled, or if they die, the source of the income, and how these sources will affect Social Security benefits. They should use the benefit example charts in Lesson 4 to estimate the amount of benefits they expect to receive. Note that experts suggest that people need about 75 percent of pre-retirement income to maintain their lifestyle in retirement. This is because they generally have little or no work-related expenses, and many of their other major expenses are behind them, (mortgages, college expenses, child-rearing expenses). This exercise may be given as an individual assignment, small group project, or may be done as a chalkboard exercise with the entire class participating.

QUIZ/ANSWER SHEET — FINANCIAL PLANNING

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|----|---|-----|---|
| 1. | A | 6. | A |
| 2. | B | 7. | B |
| 3. | D | 8. | D |
| 4. | C | 9. | B |
| 5. | B | 10. | D |



Social Security Administration